SaskTel

Consolidated Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL, INC.

December 31, 2008

Saskatchewan Telecommunications International Inc. (SaskTel International)
www.sasktel-international.com

Saskatchewan Telecommunications International, Inc. (SI) is incorporated under the laws of the Province of Saskatchewan. As a wholly-owned subsidiary of the Saskatchewan Telecommunications Holding Corporation and with its Head office in Regina, it has a mandate to pursue telecommunications related business opportunities worldwide.

For more than twenty-two years now, SaskTel International has been reaching out to the world, sharing SaskTel's extensive technological expertise with customers. SI is a company that does the little things right and is committed to success. This commitment has seen SI staff impress customers around the globe, from Manila to Maputo, for over two decades now. SI has helped clients around the world develop, improve and expand their telecommunications systems. Since 1986, SI has worked in more than 30 countries in six continents and on more than 70 projects. Presently, SI provides employment for over 30 people.

Since 1986, SaskTel International (SI) has been marketing SaskTel's technological and software solutions expertise to customers around the world. Advanced technologies that were developed to serve the people of Saskatchewan, especially in fiber optics, digital switching and software systems, have opened the doors to international markets. Today SaskTel International, either independently or in partnership with other firms, helps its customers globally to develop, improve and expand their telecommunications systems. SaskTel International's unique relationship with SaskTel, a successful independent operating telecommunications company that is not affiliated with any specific equipment vendor, allows it to search the international marketplace and offer unbiased solutions to its customers.

President's Message

In 2008, SaskTel International continued to grow both the Network and Software sides of the business. The Management team in Tanzania worked hard to stabilize the Tanzania Telephone Company Limited (TTCL) while at the same time pursuing much needed financing. As well, SI working in partnership with Atlantic Canada-based Mariner Partners Inc. (MPI) signed a contract with Telecommunication Services of Trinidad & Tobago (TSTT) to provide IPTV consulting services to assist TSTT in their efforts to launch an IPTV service comparable to SaskTel Max™ Entertainment Services. While sharing its telecom management expertise with companies throughout the world, SI also supports many telecom services providers by managing their network infrastructure through its full suite of Operational Support Solutions (MARTENS, TRACS and OpenSwitchGate). SI Software clients include KMTS with 10,000 subscribers in rural Northwestern Ontario to CenturyTel operating in over 30 U.S. States with 10 million subscribers making it the 4th largest telecom operator in North America. These are just some of the many opportunities in which SI is currently engaged in on an international level.

In its own right SaskTel International has been profitable for seventeen consecutive years. Net income for 2008 exceeded $1.4 million which is an achievement reached for the first time since the year 2000. SaskTel International total operating profits exclusive of investment gains since 1986 is more than $24.4 million. Total revenues for that same time period have exceeded $303 million.

In the future, SI believes the telecommunications market will continue to show signs of positive growth and provide many opportunities for SI to work throughout the world. In 2009, SI sees continued telecom growth that will provide opportunity for SaskTel International to grow as a company.

Doug Burnett

President, SaskTel International

KPMG

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications International, Inc. as at December 31, 2008 and the consolidated statements of operations and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 6, 2009

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Saskatchewan Telecommunications International, Inc.

Consolidated Statement of Operations and Comprehensive Income

For the year ended December 31, (Thousands of dollars)	2008	2007
Sales and consulting revenue	**$11,689**	$11,220
Direct expenses	**8,163**	7,880
Gross profit	**3,526**	3,340
Operating expenses	**2,272**	2,631
Income from operations	**1,254**	709
Other items	**166**	173
Net income	**1,420**	882
Other comprehensive income	**-**	-
Comprehensive income	**$1,420**	$882

See accompanying notes

Consolidated Statement of Retained Earnings

For the year ended December 31, (Thousands of dollars)	2008	2007
Retained earnings, beginning of year	**$2,850**	$1,968
Net income	**1,420**	882
	4,270	2,850
Dividends	**600**	-
Retained earnings, end of year	**$3,670**	$2,850

See accompanying notes

Saskatchewan Telecommunications International, Inc.

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	2008	2007
Assets		
Current assets		
Cash and short-term investments (Note 5)	**$4,499**	$2,816
Accounts receivable (Note 10a)	**996**	1,034
Work in process	**260**	441
Prepaid expenses	**189**	175
	5,944	4,466
Property, plant and equipment (Note 6)	**157**	212
Intangible assets (Note 7)	**950**	970
	$7,051	$5,648
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 10a)	**$1,644**	$1,193
Services billed in advance	**137**	605
Dividend payable	**600**	-
	2,381	1,798
Shareholder's equity		
Share capital (note 8)	**1,000**	1,000
Retained earnings	**3,670**	2,850
	4,670	3,850
	$7,051	$5,648

See accompanying notes

On behalf of the Board

Robert Watson

Mike Anderson

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2008	2007
Operating activities		
Net income	$1,420	$882
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	81	74
Net change in non-cash working capital (Note 10b)	188	2,192
Cash provided by operating activities	1,689	3,148
Investing activities		
Property, plant and equipment expenditures	(6)	(25)
Cash used in investing activities	(6)	(25)
Financing activities		
Dividends paid	-	(651)
Cash used in financing activities	-	(651)
Increase in cash	1,683	2,472
Cash and cash equivalents, beginning of year	2,816	344
Cash and cash equivalents, end of year	$4,499	$2,816
Comprised of:		
Cash	$114	$104
Short-term investments	4,385	2,712
	$4,499	$2,816

See accompanying notes

Notes to Consolidated Financial Statements

Note 1 – The Corporation

Saskatchewan Telecommunications International, Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan. The Corporation is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) with the mandate of pursuing core telecommunications business opportunities worldwide.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Change in accounting policies

Effective January 1, 2008, the Corporation adopted the accounting recommendations for capital disclosures (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535) in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether externally imposed capital requirements have been complied with. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results.

Effective January 1, 2008, the Corporation adopted the accounting recommendations for financial instruments - disclosures (CICA Handbook Section 3862) and financial instruments - presentation (CICA Handbook Section 3863) in accordance with the transition provisions of the sections. These sections replace the existing disclosure and presentation recommendations contained in financial instruments – disclosure and presentation (CICA Handbook Section 3861). The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results.

Note 3 – Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada (GAAP). The most significant policies are outlined below.

Subsidiaries and investments

The consolidated financial statements include the accounts of the Corporation and its subsidiaries with all significant intercompany transactions and balances being eliminated. Investments in companies in which the Corporation has significant influence are accounted for by the equity method.

Declines in value below cost, of investments held using the equity method, are recognized as a charge to income when such declines are considered to be other than temporary.

The Corporation owns 100% of Battleford International, Inc., 49% of Lootah SaskTel LLC, 100% of SaskTel International Consulting, Inc. and 100% of Saskatchewan Telecommunications International (Tanzania) Limited; non-operating entities.

Notes to Consolidated Financial Statements

Note 3 – Summary of significant accounting policies, continued

Cash and short-term investments

Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at fair value.

Work in process

Work in process is valued at the lower of cost and net realizable value.

Property, plant and equipment

Office furniture and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Office furniture and equipment	4 – 17 years

Finite-life intangible assets

The Corporation follows the policy of capitalizing related equipment, labour and installation costs related to the development of new software. These costs are then amortized from the date the asset is substantially completed and put into productive use. Amortization is calculated on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Software	4 years

Finite-life intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Revenue recognition

Operating revenues for perpetual licenses are recognized on delivery or according to the terms of the license agreement. Where the arrangement includes multiple elements, perpetual license revenues are recognized on delivery, provided the undelivered elements are not essential to the functionality of the license and the Corporation has evidence of fair value for all the undelivered items. If payment is subject to customer acceptance, revenue is not recognized until customer acceptance or expiration of the acceptance period. Support and maintenance fees are recognized over the term of the contract. Fees for professional services, other than in the context of multiple element arrangements are recognized as services are rendered.

Revenues for turn-key telecommunication projects and consulting services are recognized using the percentage of completion method or the achievement of contract milestones. Amounts billed or paid in advance of services provided are recorded as services billed in advance.

Notes to Consolidated Financial Statements

Note 3 – Summary of significant accounting policies, continued

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Financial instruments

Upon initial recognition, financial instruments are measured at fair value and are classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables or other liabilities. Held-to-maturity assets are carried at amortized cost with amortized premiums or discounts and other than temporary losses due to impairment included in net income. Held-for-trading assets and liabilities are carried at fair value with any gains or losses included in net income. Available-for-sale assets are carried at fair value with revaluation gains or losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, and other liabilities are accounted for at amortized cost using the effective interest method. Transaction costs are included in the initial carrying value of the financial instrument except for held-for-trading instruments in which case they are expensed as incurred.

Derivative financial instruments are used by the Corporation in the management of its financial exposures as deemed appropriate, and based on the risk management strategy of the Corporation. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation, from time to time, is party to certain derivative financial instruments, principally forward foreign exchange contracts (used to manage foreign currency exposures).

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in net income. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in other comprehensive income until the hedged items are recognized in net income.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment, intangible assets, and accounts receivable and the underlying provision for bad debts. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Notes to Consolidated Financial Statements

Note 4 – Accounting policy developments

International Financial Reporting Standards (IFRS)

In February, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Corporation has commenced an IFRS conversion project including initiating the development of a high level IFRS implementation plan at the Holdco level. An external advisor has been engaged by Holdco to assist with the development of this plan and to perform a detailed review of major differences between current Canadian GAAP and IFRS. Work is in the early stages and, as a result, the impact on the Corporation's future financial position and results of operations is not reasonably determinable.

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets". Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. This section also provides further information on the recognition of internally generated intangible assets (including research and development costs). As for the subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062, "Goodwill and Other Intangible Assets". The new section will become effective on January 1, 2009. The Corporation is currently evaluating the effect of the adoption of this new section on the consolidated financial statements.

Note 5 – Cash and short-term investments

Short-term investments represent funds invested with Holdco at an interest rate of 2.00% (2007 – 4.34%).

Note 6 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2008	2007
				(Thousands of dollars)
Office furniture and equipment	**$463**	**$306**	**$157**	$212

Depreciation and amortization for the year totaled $60,966 (2007 - $74,716).

Note 7 – Intangible assets

	Cost	Accumulated amortization	Net book value	
			2008	2007
				(Thousands of dollars)
Software	**$970**	**$20**	**$950**	$970

Notes to Consolidated Financial Statements

Note 7 – Intangible assets, continued

During the year the software under development was completed and made available for use. The software is being amortized, according to the Corporation's accounting policy.

Amortization for the year totaled $20,216 (2007 - $nil).

Note 8 - Share capital and additional capital disclosures

a) Share capital

	2008	2007 (Thousands of dollars)
Authorized-unlimited number of class A common shares Issued - 1,000,000 shares	**$1,000**	$1,000

b) Additional capital disclosures

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies of the Corporation, and to ensure adequate returns to the shareholder.

The capital structure is determined in conjunction with the shareholder based on the approved business plans and dividend policy

The Corporation monitors capital on the basis of cash available for distribution. Balances in excess of operating requirements are distributed to the shareholder.

The Corporation's strategy, which is to maintain sufficient cash for the continued development of target markets, is unchanged from 2007.

The Corporation is not subject to any externally imposed capital requirements.

Note 9 – Commitments and contingencies

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2008 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.

Notes to Consolidated Financial Statements

Note 10 – Additional financial information

a) **Balance sheet**

	2008	2007 (Thousands of dollars)
Accounts receivable		
Customer accounts receivable	$948	$1,520
Allowance for doubtful accounts	-	(493)
	948	1,027
Other	48	7
	$996	$1,034
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	$1,247	$761
Payroll and other employee-related liabilities	397	408
Taxes payable	-	24
	$1,644	$1,193

b) **Supplementary cash flow information**

	2008	2007 (Thousands of dollars)
Net change in non-cash working capital		
Accounts receivable	$38	$1,391
Work in process	181	482
Prepaid expenses	(14)	(113)
Accounts payable and accrued liabilities	451	(173)
Services billed in advance	(468)	605
	$188	$2,192

Note 11 – Financial instruments

The Corporation's financial instruments include cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, and dividend payable, which by their nature are subject to risks.

a) Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Notes to Consolidated Financial Statements

Note 11 – Financial instruments, continued

The following table represents the carrying amounts and fair values of financial assets and liabilities measured at fair value or amortized cost:

(Thousands of dollars)		2008		2007	
Financial Instruments	Classification[1]	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Cash and short-term investments	HFT	**$4,499**	**$4,499**	$2,816	$2,816
Accounts receivable	LAR	**996**	**996**	1,034	1,034
Financial Liabilities					
Accounts payable and accrued liabilities	OL	**$1,644**	**$1,644**	$1,193	$1,193
Dividend payable	OL	**600**	**600**	-	-

[1] Classification details are:
HFT – held-for-trading
LAR – loans and receivables
OL – other liabilities

The carrying values of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, and dividend payable approximate their fair values due to the short-term maturity of these financial instruments.

b) Currency risk

The Corporation is exposed to currency risk, primarily US dollars, through transactions with foreign customers, foreign suppliers and short-term foreign commitments. Assuming all other variables remained constant at December 31, 2008, currency fluctuations in excess of 1% would have a material impact on net income. Specifically, a 1% weakening in the Canadian dollar versus US dollar exchange rate would have a 3.8% favourable effect on net income while a 1% strengthening would have a 3.8% unfavourable effect on net income. The Corporation uses a combination of derivative financial instruments to manage these exposures when deemed appropriate. The Corporation does not actively trade derivative financial instruments.

c) Interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on short-term investments. Assuming all other variables remained constant at December 31, 2008, a 10% (25 basis point) increase or decrease in interest rates would not have a material impact on net income.

d) Market risk

The Corporation is exposed to market risk on short-term investments. Fair value adjustments will fluctuate based on changes in market prices, however the fluctuations should not be significant due to the short term nature of the investments.

e) Credit risk

The Corporation is exposed to credit risk through its short-term investments and accounts receivable. Credit risk related to short-term investments is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized by evaluating customer credit risk and limiting credit availability when necessary.

Notes to Consolidated Financial Statements

Note 11 – Financial instruments, continued

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2008	2007
		(Thousands of dollars)
Cash and short-term investments	$4,499	$2,816
Accounts receivable	996	1,034
	$5,495	$3,850

The aging of customer receivables, which indicates potential impairment losses, is as follows:

	2008	2007
		(Thousands of dollars)
Current	$568	$917
30-60 days past billing date	289	56
61-90 days past billing date	97	57
Greater than 90 days past billing date	42	4
Total	$996	$1,034

Provisions for credit losses are maintained and regularly reviewed by the Corporation, based on an analysis of the aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

	2008	2007
		(Thousands of dollars)
Allowance for doubtful accounts, opening balance	$493	$493
Accounts written off	(493)	-
Allowance for doubtful accounts, closing balance	$-	$493

f) Liquidity risk

The following are the contractual maturities of financial liabilities, all of which are due within six months of the respective year ends:

December 31, 2008

	Carrying Amount	Contractual cash flows	6 mths or less
			(Thousands of dollars)
Accounts payable and accrued liabilities	$1,644	$1,644	$1,644
Dividend payable	600	600	600
	$2,244	$2,244	$2,244

Notes to Consolidated Financial Statements

Note 11 – Financial instruments, continued

December 31, 2007

	Carrying Amount	Contractual cash flows	6 mths or less
			(Thousands of dollars)
Accounts payable and accrued liabilities	$1,193	$1,193	$1,193

Sufficient operating cash flows are expected to be generated to fund these contractual obligations. In addition, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows.

Note 12 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2008	2007
		(Thousands of dollars)
Sales and consulting revenue	$1,856	$2,067
Direct and operating expenses	644	749
Other income	166	143
Accounts receivable	-	453
Accounts payable and accrued liabilities	905	366

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Ministry of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Note 13 – Comparative figures

Certain of the 2007 figures have been reclassified to conform to the current year's presentation.